

REVIEW OF STATE FUNDING METHODOLOGY

July 21, 2005



HISTORY OF STATE APPROPRIATION ALLOCATION

- **Incremental approach to allocation from 1968 to 2000**
 - When system created, each campus brought with it a state appropriation amount
 - Percent of the total stayed the same for 32 years, with occasional changes for reorganizations
 - So, campus share of appropriation remained basically constant, with incremental state increases allocated on same percentage share
 - Therefore, appropriation funding per student FTE varied as campus enrollments increased or declined

STATE LEGISLATION IN 1997

- In 1997, state passed LD 1557, “An Act to Create Efficient Administration of the University of Maine System”
 - ◊ Required a review of state appropriation in light of:
 - Distinctive missions
 - Enrollment shifts
 - Program priorities
 - Changing program costs
 - Demographic patterns
 - Emerging need of the State
 - ◊ Ensured non-traditional student’s needs are met (part-time students issue)

State Legislation,Cont'd

- **In 1998, after internal review with the assistance of a consultant, Board of Trustees of the University of Maine System approved APL 41, Distribution of Resources model which intent was to:**
 - Recognize that differing missions entail different funding levels
 - Recognize priorities as a first step in the distribution process
 - Require a periodic review of the funding process and its results
 - Provide an incentive for enrollment growth in the distribution approach effective with fiscal year 2000

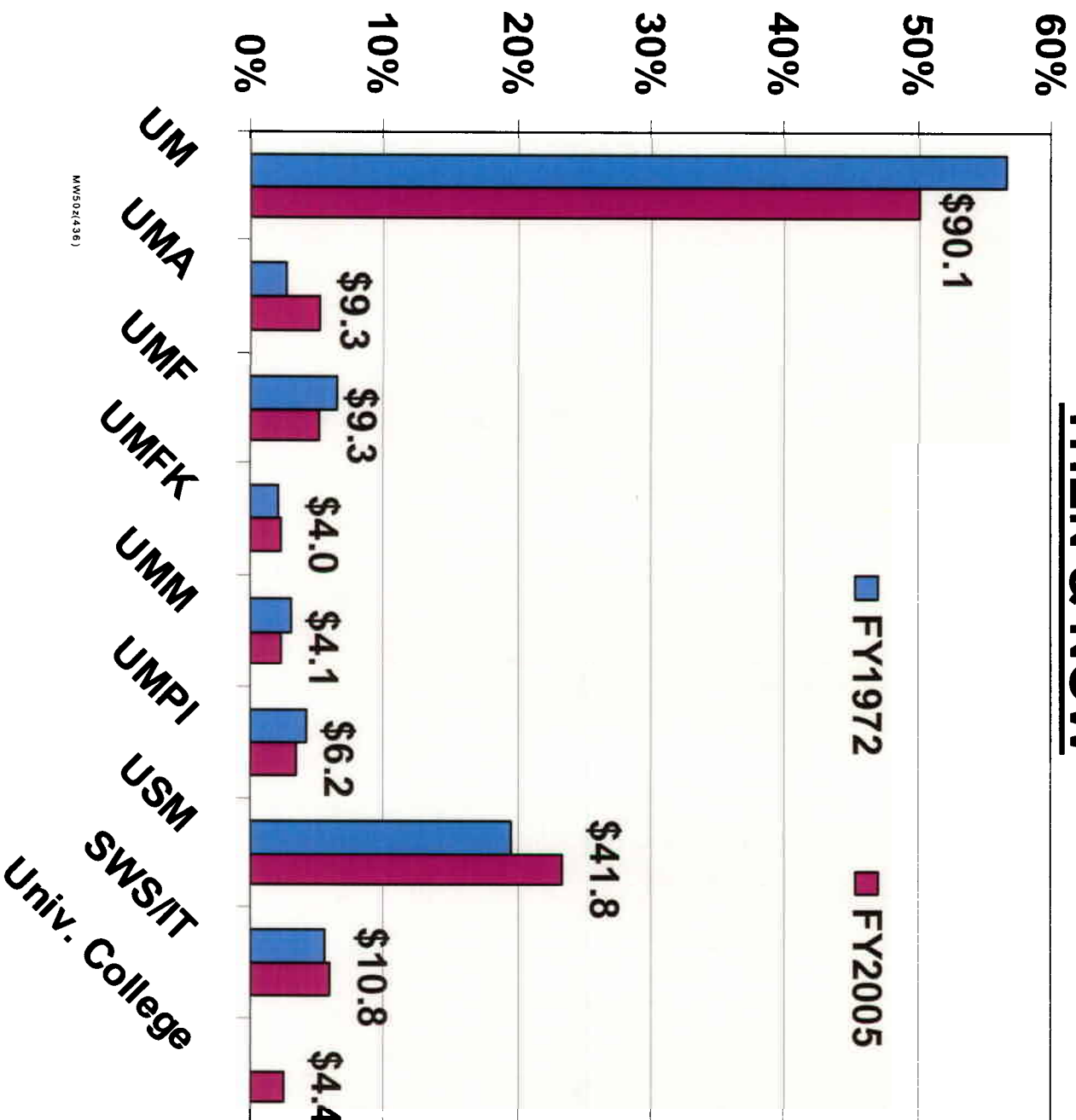
APL 41 – DISTRIBUTION OF RESOURCES MODEL METHODOLOGY

- **Implemented an FTE enrollment formula (DOR model)**
 - Based on the change in Fall full-time equivalents
 - Enrollment changes based on three year average
 - New state appropriation dollars first used to fund DOR model
- **Part-time student headcount enrollment formula**
 - Basically, \$35,000 each to USM and UMA

DOR Model Methodology, Cont'd

- **Priorities established by Trustees**
 - FY00, FY01 and FY02 (the years in which this formula was used), compensation and benefits were the “Trustee” priority in each year.
 - Thus, after DOR model distributed, remainder of new state appropriation dollars and all tuition rate increase dollars were allocated based upon campus compensation increases
 - Pooled System benefits and insurance taken “off the top”
 - Some years, funding increases were enough to pay for compensation and benefits; other years, reallocation of resources was required at the campus level
- **DOR model discontinued in FY03 due to lack of relevance considering the low incremental state funding combined with 47% increase in health insurance**

STATE APPROPRIATION THEN & NOW



ISSUES WITH PAST DISTRIBUTION MODEL

- Enrollment growth at all costs?
- Not based upon peer group comparisons
- Compensation based allocation “rewards” campuses who balloon salary costs
- No carve out dollars for strategic investments
- Allocation for FTE enrollment growth not weighted for upper division courses (retention incentive)
- Not effective in years of modest and decreasing state appropriation
- No multi-year funding plan for allocation

FUNDING METHODS FOR PUBLIC HIGHER EDUCATION SYSTEMS

- Incremental funding
 - o UMS method
 - o Increases and decreases made to base for inflation
 - o Provides stability and predictability, clear rationale
- Formula funding
 - o Uses quantitative factors, frequently enrollments by degree level and academic area
- Initiative, or opportunity funding
 - o Targets resources for new and different ventures
 - o Mechanisms include specific purpose grants, which may be competitive, or incentive based
- Performance based funding
 - o Allocates resources based on measured results
- Most states use a combination of mechanisms
 - o Incremental and initiative funding most common
 - o Performance based funding is an emerging trend

EXAMPLES OF OTHER STATE FUNDING METHODOLOGIES

- Kentucky
 - o Benchmark funding model based upon peer group comparisons per FTE
- Ohio (new a few years ago)
 - o Performance based formula (core, access, academic success challenge, research challenge, technology challenge, job challenge)
- Alabama
 - o Partially formula based upon weighted academic credit hours
- Oregon
 - o 92% student productivity (3-yr rolling average and peer group comparisons)
 - o 6% institutional productivity (mission related)
 - o 2% quality and change of direction (allocated competitively)
- Tennessee
 - o Long-standing formula
 - o Uses peer comparisons
 - o Grants program with incentive matching requirements
- New Hampshire
 - o In 1987, tried to phase in peer institution costs standard
 - o Key goal not to disadvantage campuses with primarily in-state students
 - o Never fully implemented

FINANCIAL RESOURCE FUNDING STRATEGY CONSIDERATIONS

- Method must work for both increasing and decreasing state appropriations
- Campus capacity – does increased enrollment always mean incremental costs?
- Institutions with large research and public service costs
- Funding for System-wide shared services
- Tuition and fee differentials
- Mission diversity and cost of programs attributable to mission (i.e., cost of lower vs. upper division courses)
- Age of physical plant
- Timeframes for dealing with shifts from historic resource allocations

RECENT PEER GROUP COMPARISONS

- In 1997, consultant (Brenda Albright) prepared peer group comparisons using national and regional IPEDS data FY1995
 - o Results were to increase UMF and UMA state allocations to eliminate perceived underfunding

PEER GROUP COMPARISONS - SHORTFALLS

- Need more than one year's analysis to assure accuracy and to get consistent results
- Institutions with enrollment under 1,000 do not produce meaningful peer group comparisons
- IPEDS data only as good as institutions submitted it
- Peers are “status quo” and do not consider aspirations of campus leaders

STRATEGIC DIRECTION #6 - ACCOUNTABILITY

(see attached interim report)

- Committee comprised of faculty, administrators and a student from the University System
- Discussion to date:
 - Accountability Measures
 - Internal Funding Methods
- Goal as Presented in Strategic Plan
 - To establish a performance-based funding component